

CITY OF REMSEN
MUNICIPAL UTILITIES

Remsen, Iowa

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2004

CITY OF REMSEN
MUNICIPAL UTILITIES

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CITY OF REMSEN
MUNICIPAL UTILITIES
OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Don Kolker	Chairman	January 2008
Stephen Matgen	Trustee	January 2010
Richard Gengler	Trustee	January 2006
Ron Mayer	Superintendent	

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Board of Trustees
City of Remsen
Municipal Utilities
Remsen, Iowa

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the Municipal Utilities of the City of Remsen, Iowa, a component unit of the City, as of and for the years ended June 30, 2004. These financial statements are the responsibility of the City of Remsen's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Municipal Utilities and are not intended to present fairly the financial position of the City of Remsen, Iowa, and the results of its operations and the cash flows of its general, special revenue, debt service and trust and agency funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities, each major fund and the aggregate remaining fund information of the Municipal Utilities of the City of Remsen, Iowa, as of June 30, 2004, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

To the Honorable Mayor
and Board of Trustees
City of Remsen
Municipal Utilities

As described in the notes to the financial statements, during the year ended June 30, 2004, Municipal Utilities of the City of Remsen, Iowa adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2004, on our consideration of the Municipal Utilities of the City of Remsen's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 8 and 24 are not required parts of the basic financials, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Municipal Utilities of the City of Remsen's basic financial statements. Other supplementary information included in Schedules 1 through 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

King, Reinsch, Prosser & Co., L.L.P.

September 22, 2004
Sioux City, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Municipal Utilities of the City of Remsen provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the financial statements, which follow.

Because the Municipal Utilities is implementing new reporting standards for the fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining its financial position and results of operations.

2004 Financial Highlights

- The Municipal Utilities' assets exceed liabilities by \$4,037,175 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$4,183,392.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt, of \$2,524,105 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Nets assets of \$3,503 are restricted by constraints imposed from outside the Municipal Utilities such as debt covenants.
 - (3) Unrestricted net assets of \$1,509,567 represent the portion available to maintain the Municipal Utilities' continuing obligations to citizens and creditors.
- At the end of the current fiscal year, net assets decreased by \$146,217. 57% of the decrease or \$82,473 was due to a transfer to the City of Remsen for which the Municipal Utilities is a component unit.

Using This Annual Report

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the financial activities.

The Statement of Net Assets presents information that includes all of the Municipal Utilities' assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipal Utilities as a whole is improving or deteriorating.

The Statement of Activities reports how the Municipal Utilities' net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

The Fund Financial Statements report the Municipal Utilities' operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information explains further and supports the financial statements with a comparison of the budget for the year.

Other Supplementary Information provides detailed information about nonmajor proprietary funds.

Financial Analysis of the Municipal Utilities as a Whole

The Municipal Utilities' net assets at fiscal year-end are \$4,037,175. This is a \$146,217 decrease over last year's net assets of \$4,183,392. The following table provides a summary of the net assets at June 30:

	<u>2004</u>	<u>2003</u>	<u>Amount Change</u>	<u>% Change</u>
Current and other assets	\$ 1,716,513	\$ 1,781,451	\$ (64,938)	(3.65%)
Capital assets	<u>2,871,310</u>	<u>2,873,911</u>	<u>(2,601)</u>	<u>(0.09%)</u>
Total assets	<u>\$ 4,587,823</u>	<u>\$ 4,655,362</u>	<u>\$ (67,539)</u>	<u>(1.45%)</u>
Long-term liabilities	\$ 317,205	\$ 346,287	\$ (29,082)	(8.39%)
Other liabilities	<u>233,443</u>	<u>125,683</u>	<u>107,760</u>	<u>85.74%</u>
Total liabilities	<u>\$ 550,648</u>	<u>\$ 471,970</u>	<u>\$ 78,678</u>	<u>16.67%</u>
Net assets:				
Invested in capital assets, net of related debt	\$ 2,524,105	\$ 2,527,624	\$ (3,519)	(0.13%)
Restricted	<u>3,503</u>	<u>3,503</u>	<u>-</u>	<u>0.00%</u>
Unrestricted	<u>1,509,567</u>	<u>1,652,265</u>	<u>(142,698)</u>	<u>(8.64%)</u>
Total net assets	<u>\$ 4,037,175</u>	<u>\$ 4,183,392</u>	<u>\$ (146,217)</u>	<u>(3.50%)</u>

The Municipal Utilities reported positive balances in net assets for all the business-type activities. Net assets decreased \$146,217 due primarily to transfers to the City of Remsen.

Comparative data is accumulated and presented to assist analysis. The following table provides a summary of the Municipal Utilities' changes in net assets for the year ended June 30:

	<u>2004</u>	<u>2003</u>	<u>Amount Change</u>	<u>% Change</u>
Revenues:				
Program revenues:				
Charges for services	\$ 1,612,024	\$ 1,661,683	\$ (49,659)	(2.98%)
General receipts:				
Unrestricted interest	<u>33,278</u>	<u>36,920</u>	<u>(3,642)</u>	<u>(9.86%)</u>
Total revenues	<u>\$ 1,645,302</u>	<u>\$ 1,698,603</u>	<u>\$ (53,301)</u>	<u>(3.13%)</u>
Expenses:				
Water	\$ 153,849	\$ 147,949	\$ 5,900	3.98%
Electric	776,281	840,812	(64,531)	(7.67%)
Gas	762,666	737,633	25,033	3.39%
Water Reserve	<u>16,250</u>	<u>17,977</u>	<u>(1,727)</u>	<u>(9.60%)</u>
Total expenses	<u>\$ 1,709,046</u>	<u>\$ 1,744,371</u>	<u>\$ (35,325)</u>	<u>(2.02%)</u>
Decrease in net assets before transfers	\$ (63,744)	\$ (45,768)	\$ (17,976)	(39.27%)
Transfers to City of Remsen	<u>(82,473)</u>	<u>(50,000)</u>	<u>(32,473)</u>	<u>(64.94%)</u>
Change in net assets	\$ (146,217)	\$ (95,768)	\$ (50,449)	(52.67%)
Beginning net assets	<u>4,183,392</u>	<u>4,279,160</u>	<u>(95,768)</u>	<u>(2.24%)</u>
Ending net assets	<u>\$ 4,037,175</u>	<u>\$ 4,183,392</u>	<u>\$ (146,217)</u>	<u>(3.50%)</u>

Financial Analysis of the Municipal Utilities' Funds

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status.

Major Proprietary Funds

The Water Utility Fund accounts for the operation and maintenance of the City's water system. A utility rate increase in July 2003 contributed primarily to the increase in net assets of \$41,904.

The Electric Utility Fund accounts for the operation and maintenance of the City's electric system. Net assets decreased by \$60,042 due primarily to the transfer to the City of Remsen for both the annual in-lieu of taxes payment and financing the costs of the improvements to the little league baseball parks.

The Gas Utility Fund accounts for the operation and maintenance of the City's natural gas system. Net assets decreased by \$128,465. The Municipal Utilities' Board decided not to raise gas rates in 2004 when gas costs were increasing. It wanted to absorb some of the costs rather than increase rates. A gas rate increase is expected for 2005.

Budgetary Highlights

The proprietary fund budget for the fiscal year 2004 was approximately \$1.9 million. This was an increase of \$200,000 over the previous year amended budget.

Disbursements during the year ending June 30, 2004 did not exceed the amounts budgeted in the business-type activities.

Capital Assets and Debt Administration

Capital Assets

The Municipal Utilities' investment in capital assets, net of accumulated depreciation as of June 30, 2004 was \$2,871,310. The total decrease in this net investment was 0.09%. Major capital asset additions during the current fiscal year included an electric transformer and construction a new electric department building. This project was about 50% complete as of June 30, 2004. For additional information about changes in capital assets during the fiscal year and construction commitments outstanding at the end of the year, see the notes to the financial statements.

	<u>2004</u>	<u>2003</u>	<u>Amount Change</u>	<u>% Change</u>
Non-depreciable assets:				
Land	\$ 88,718	\$ 88,718	\$ -	0.00%
Construction in progress	149,493	-	149,493	100.00%
Depreciable assets:				
Electric plant	666,645	750,266	(83,621)	(11.14%)
Electric transmission facilities	143,370	144,276	(906)	(0.62%)
Water plan	1,588,406	1,642,806	(54,400)	(3.31%)
Gas distribution system	150,115	156,531	(6,416)	4.09%
Equipment	68,484	69,889	(1,405)	(2.01%)
Automotive equipment	<u>16,079</u>	<u>21,425</u>	<u>(5,346)</u>	<u>(24.95%)</u>
Total	<u>\$ 2,871,310</u>	<u>\$ 2,873,911</u>	<u>\$ (2,601)</u>	<u>(0.09%)</u>

Long-term Debt

At the end of the fiscal year, the Municipal Utilities had total bonded debt outstanding of \$350,000. This debt is supported by pledged revenues generated primarily by the Water Utility Fund (revenue bonds). See the notes of the financial statements for additional discussion.

Economic Environment and Next Year's Budget and Rates

Municipal Utilities' appointed officials and citizens considered many factors when setting the fiscal year 2005 budget and utility rates that will be charged for various utilities. One of these factors is the state of the economy.

The Electric Utility Fund has sustained increased costs of electricity, and is projected to see another increase for the next fiscal year. The Gas Utility Fund will also see projected cost increases next year. With this future increase, the Municipal Utilities will continue to review its revenue and implement increases if deemed necessary.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$1.8 million, an increase of six percent over the final 2004 budget. Budgeted disbursements are expected to decrease by approximately \$65,000.

Disbursements decreased due to capital project for the electric maintenance building started in fiscal year 2004.

If these estimates are realized, the Municipal Utilities' budgeted cash balance is expected to decrease by approximately \$300,000 by the end 2005.

Contacting the Municipal Utilities' Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Steve Pick, City Clerk, PO Box 510, Remsen, IA 51050.

FINANCIAL STATEMENTS

CITY OF REMSEN
MUNICIPAL UTILITIES
STATEMENT OF NET ASSETS
JUNE 30, 2004 (WITH COMPARATIVE TOTALS FOR 2003)

ASSETS

	<u>2004</u>	<u>2003</u>
CURRENT ASSETS:		
Cash	\$ 1,220,605	\$ 1,314,724
Accounts receivable	135,536	110,799
Inventory	75,940	76,777
Accrued interest receivable	7,267	8,245
Prepaid insurance	42,760	40,968
Total current assets	<u>\$ 1,482,108</u>	<u>\$ 1,551,513</u>
RESTRICTED ASSETS:		
Cash	<u>\$ 28,970</u>	<u>\$ 28,806</u>
NON-CURRENT ASSETS:		
Investments:		
Electric transmission capacity reserve (MBMECA)	\$ 205,435	\$ 201,132
Capital assets:		
Land and construction in progress	238,211	88,718
Other capital assets, net of accumulated depreciation	<u>2,633,099</u>	<u>2,785,193</u>
Total non-current assets	<u>\$ 3,076,745</u>	<u>\$ 3,075,043</u>
Total assets	<u><u>\$ 4,587,823</u></u>	<u><u>\$ 4,655,362</u></u>

LIABILITIES

CURRENT LIABILITIES:		
Accounts payable	\$ 175,558	\$ 67,705
Accrued interest payable	2,418	2,675
Meter deposits	25,467	25,303
Current maturities of bond indebtedness	<u>30,000</u>	<u>30,000</u>
Total current liabilities	<u>\$ 233,443</u>	<u>\$ 125,683</u>
NON-CURRENT LIABILITIES:		
Water revenue bonds	\$ 145,000	\$ 165,000
Less bond discount net of amortization	<u>2,795</u>	<u>3,713</u>
	\$ 142,205	\$ 161,287
Water revenue capital loan notes	205,000	215,000
Less current maturities	<u>30,000</u>	<u>30,000</u>
Total non-current liabilities	<u>\$ 317,205</u>	<u>\$ 346,287</u>
Total liabilities	<u><u>\$ 550,648</u></u>	<u><u>\$ 471,970</u></u>

NET ASSETS

Invested in capital assets, net of related debt	\$ 2,524,105	\$ 2,527,624
Restricted for debt service	3,503	3,503
Unrestricted	<u>1,509,567</u>	<u>1,652,265</u>
Total net assets as restated	<u><u>\$ 4,037,175</u></u>	<u><u>\$ 4,183,392</u></u>

See accompanying notes to financial statements.

CITY OF REMSEN

MUNICIPAL UTILITIES

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2004

		Program Receipts			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
FUNCTIONS/PROGRAMS:					
Business type activities:					
Water	\$ 153,849	\$ 210,941	\$ -	\$ -	\$ 57,092
Electric	776,281	754,392	-	-	(21,889)
Gas	762,666	646,691	-	-	(115,975)
Water reserve	16,250	-	-	-	(16,250)
Meter deposits	-	-	-	-	-
Total	<u>\$ 1,709,046</u>	<u>\$ 1,612,024</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (97,022)</u>
GENERAL RECEIPTS:					
Unrestricted interest on investments					33,278
TRANSFERS TO CITY OF REMSEN					<u>(82,473)</u>
Total general receipts and transfers					<u>\$ (49,195)</u>
CHANGE IN NET ASSETS					\$ (146,217)
NET ASSETS BEGINNING OF YEAR - RESTATED					<u>4,183,392</u>
NET ASSETS END OF YEAR					<u>\$ 4,037,175</u>

CITY OF REMSEN

MUNICIPAL UTILITIES

STATEMENT OF FUND NET ASSETS

JUNE 30, 2004 (WITH COMPARATIVE TOTALS FOR 2003)

ASSETS

	<u>Water Utility</u>	<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Other Enterprise Funds</u>	<u>Total 2004</u>	<u>Total 2003</u>
CURRENT ASSETS:						
Cash	\$ -	\$ 715,547	\$ 503,834	\$ 1,224	\$ 1,220,605	\$ 1,314,724
Accounts receivable	25,173	69,766	40,597	-	135,536	110,799
Due from other funds	-	20,452	-	-	20,452	83,187
Inventory	5,450	66,926	3,564	-	75,940	76,777
Accrued interest receivable	18	3,736	3,513	-	7,267	8,245
Prepaid insurance	8,552	17,104	17,104	-	42,760	40,968
Total current assets	<u>\$ 39,193</u>	<u>\$ 893,531</u>	<u>\$ 568,612</u>	<u>\$ 1,224</u>	<u>\$ 1,502,560</u>	<u>\$ 1,634,700</u>
RESTRICTED ASSETS:						
Cash	\$ -	\$ -	\$ -	\$ 28,970	\$ 28,970	\$ 28,806
NON-CURRENT ASSETS:						
Investments:						
Electric transmission capacity reserve (MBMECA)	\$ -	\$ 205,435	\$ -	\$ -	\$ 205,435	\$ 201,132
Capital assets:						
Land and construction in progress	82,218	149,493	6,500	-	238,211	88,718
Other capital assets, net of accumulated depreciation	1,608,003	850,852	174,244	-	2,633,099	2,785,193
Total non-current assets	<u>\$ 1,690,221</u>	<u>\$ 1,205,780</u>	<u>\$ 180,744</u>	<u>\$ -</u>	<u>\$ 3,076,745</u>	<u>\$ 3,075,043</u>
Total assets	<u>\$ 1,729,414</u>	<u>\$ 2,099,311</u>	<u>\$ 749,356</u>	<u>\$ 30,194</u>	<u>\$ 4,608,275</u>	<u>\$ 4,738,549</u>

LIABILITIES

CURRENT LIABILITIES:						
Accounts payable	\$ 7,582	\$ 125,264	\$ 42,712	\$ -	\$ 175,558	\$ 67,705
Due to other funds	20,452	-	-	-	20,452	83,187
Accrued interest payable	2,418	-	-	-	2,418	2,675
Meter deposits	-	-	-	25,467	25,467	25,303
Current maturities of bond indebtedness	30,000	-	-	-	30,000	30,000
Total current liabilities	<u>\$ 60,452</u>	<u>\$ 125,264</u>	<u>\$ 42,712</u>	<u>\$ 25,467</u>	<u>\$ 253,895</u>	<u>\$ 208,870</u>
NON-CURRENT LIABILITIES:						
Water revenue bonds	\$ 145,000	\$ -	\$ -	\$ -	\$ 145,000	\$ 165,000
Less bond discount net of amortization	2,795	-	-	-	2,795	3,713
	<u>\$ 142,205</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 142,205</u>	<u>\$ 161,287</u>
Water revenue capital loan notes	205,000	-	-	-	205,000	215,000
Less current maturities	30,000	-	-	-	30,000	30,000
Non-current liabilities	<u>\$ 317,205</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 317,205</u>	<u>\$ 346,287</u>
Total liabilities	<u>\$ 377,657</u>	<u>\$ 125,264</u>	<u>\$ 42,712</u>	<u>\$ 25,467</u>	<u>\$ 571,100</u>	<u>\$ 555,157</u>

NET ASSETS

Invested in capital assets, net of related debt	\$ 1,343,016	\$ 1,000,345	\$ 180,744	\$ -	\$ 2,524,105	\$ 2,527,624
Restricted for debt service	-	-	-	3,503	3,503	3,503
Unrestricted	8,741	973,702	525,900	1,224	1,509,567	1,652,265
Total net assets as restated	<u>\$ 1,351,757</u>	<u>\$ 1,974,047</u>	<u>\$ 706,644</u>	<u>\$ 4,727</u>	<u>\$ 4,037,175</u>	<u>\$ 4,183,392</u>

CITY OF REMSEN

MUNICIPAL UTILITIES

STATEMENT OF REVENUES, EXPENSES, AND

CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2004 (WITH COMPARATIVE TOTALS FOR 2003)

	<u>Water Utility</u>	<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Other Enterprise Funds</u>	<u>Total 2004</u>	<u>Total 2003</u>
OPERATING REVENUE:						
Charges for services:						
Water	\$ 210,942	\$ -	\$ -	\$ -	\$ 210,942	\$ 169,834
Electric	-	754,391	-	-	754,391	775,201
Gas	-	-	646,691	-	646,691	716,648
	<u>\$ 210,942</u>	<u>\$ 754,391</u>	<u>\$ 646,691</u>	<u>\$ -</u>	<u>\$ 1,612,024</u>	<u>\$ 1,661,683</u>
OPERATING EXPENSES:						
Personal services:						
Salaries and wages	\$ 23,538	\$ 66,580	\$ 66,525	\$ -	\$ 156,643	\$ 162,185
Employee benefits and costs	3,413	40,218	39,756	-	83,387	71,055
Staff development	1,558	2,266	1,144	-	4,968	6,976
	<u>\$ 28,509</u>	<u>\$ 109,064</u>	<u>\$ 107,425</u>	<u>\$ -</u>	<u>\$ 244,998</u>	<u>\$ 240,216</u>
Services and commodities:						
Repair, maintenance and utilities	\$ 14,606	\$ 18,707	\$ 20,766	\$ -	\$ 54,079	\$ 51,115
Contractual services	28,043	55,153	40,801	-	123,997	104,480
Commodities	14,534	478,085	579,016	-	1,071,635	1,140,055
	<u>\$ 57,183</u>	<u>\$ 551,945</u>	<u>\$ 640,583</u>	<u>\$ -</u>	<u>\$ 1,249,711</u>	<u>\$ 1,295,650</u>
Depreciation	<u>\$ 67,239</u>	<u>\$ 115,272</u>	<u>\$ 14,658</u>	<u>\$ -</u>	<u>\$ 197,169</u>	<u>\$ 190,049</u>
Total operating expenses	<u>\$ 152,931</u>	<u>\$ 776,281</u>	<u>\$ 762,666</u>	<u>\$ -</u>	<u>\$ 1,691,878</u>	<u>\$ 1,725,915</u>
Operating income (loss)	<u>\$ 58,011</u>	<u>\$ (21,890)</u>	<u>\$ (115,975)</u>	<u>\$ -</u>	<u>\$ (79,854)</u>	<u>\$ (64,232)</u>
NON-OPERATING REVENUE (EXPENSES):						
Investment income	\$ 997	\$ 19,321	\$ 12,510	\$ 451	\$ 33,279	\$ 36,920
Bond discount amortization	(918)	-	-	-	(918)	(479)
Interest on bonds	-	-	-	(16,251)	(16,251)	(17,977)
Total non-operating revenue (expense)	<u>\$ 79</u>	<u>\$ 19,321</u>	<u>\$ 12,510</u>	<u>\$ (15,800)</u>	<u>\$ 16,110</u>	<u>\$ 18,464</u>
INCOME (LOSS) BEFORE TRANSFERS	\$ 58,090	\$ (2,569)	\$ (103,465)	\$ (15,800)	\$ (63,744)	\$ (45,768)
TRANSFERS:						
Transfers from other funds	\$ -	\$ -	\$ -	\$ 16,186	\$ 16,186	\$ -
Transfers to other funds	(16,186)	-	-	-	(16,186)	-
Transfers to City of Remsen	-	(57,473)	(25,000)	-	(82,473)	(50,000)
Total transfers	<u>\$ (16,186)</u>	<u>\$ (57,473)</u>	<u>\$ (25,000)</u>	<u>\$ 16,186</u>	<u>\$ (82,473)</u>	<u>\$ (50,000)</u>
CHANGE IN NET ASSETS	\$ 41,904	\$ (60,042)	\$ (128,465)	\$ 386	\$ (146,217)	\$ (95,768)
NET ASSETS BEGINNING OF YEAR - RESTATED	<u>1,309,853</u>	<u>2,034,089</u>	<u>835,109</u>	<u>4,341</u>	<u>4,183,392</u>	<u>4,279,160</u>
NET ASSETS END OF YEAR	<u>\$ 1,351,757</u>	<u>\$ 1,974,047</u>	<u>\$ 706,644</u>	<u>\$ 4,727</u>	<u>\$ 4,037,175</u>	<u>\$ 4,183,392</u>

CITY OF REMSEN

MUNICIPAL UTILITIES

STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2004 (WITH COMPARATIVE TOTALS FOR 2003)

	<u>Water Utility</u>	<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Other Enterprise Funds</u>	<u>Total 2004</u>	<u>Total 2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash received from customers	\$ 202,463	\$ 743,131	\$ 641,693	\$ 164	\$ 1,587,451	\$ 1,699,159
Cash payments to suppliers for goods and services	(66,116)	(595,874)	(660,444)	-	(1,322,434)	(1,365,263)
Cash payments to employees	(23,538)	(66,580)	(66,525)	-	(156,643)	(162,185)
Net cash provided (used) by operating activities	<u>\$ 112,809</u>	<u>\$ 80,677</u>	<u>\$ (85,276)</u>	<u>\$ 164</u>	<u>\$ 108,374</u>	<u>\$ 171,711</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:						
Receipts under interfund loans	\$ 20,452	\$ 83,187	\$ -	\$ -	\$ 103,639	\$ -
Payments under interfund loans	(83,187)	(20,452)	-	-	(103,639)	-
Transfers to other funds	(16,186)	-	-	-	(16,186)	-
Transfers from other funds	-	-	-	16,186	16,186	-
Transfers to City of Remsen	-	(57,473)	(25,000)	-	(82,473)	(50,000)
Net cash provided (used) by non-capital financing activities	<u>\$ (78,921)</u>	<u>\$ 5,262</u>	<u>\$ (25,000)</u>	<u>\$ 16,186</u>	<u>\$ (82,473)</u>	<u>\$ (50,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Principal payments under bond obligations	\$ (30,000)	\$ -	\$ -	\$ -	\$ (30,000)	\$ (30,000)
Interest payments under bond obligations	(257)	-	-	(16,251)	(16,508)	(18,231)
Purchases of capital assets	(5,076)	(87,838)	(10,388)	-	(103,302)	(238,974)
Net cash provided (used) by capital and related financing activities	<u>\$ (35,333)</u>	<u>\$ (87,838)</u>	<u>\$ (10,388)</u>	<u>\$ (16,251)</u>	<u>\$ (149,810)</u>	<u>\$ (287,205)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Investment income	\$ 1,445	\$ 19,609	\$ 12,752	\$ 451	\$ 34,257	\$ 39,781
Investments in MBMECA	-	(4,303)	-	-	(4,303)	3,070
Net cash provided by (used for) financing activities	<u>\$ 1,445</u>	<u>\$ 15,306</u>	<u>\$ 12,752</u>	<u>\$ 451</u>	<u>\$ 29,954</u>	<u>\$ 42,851</u>
NET INCREASE (DECREASE) IN CASH	<u>\$ -</u>	<u>\$ 13,407</u>	<u>\$ (107,912)</u>	<u>\$ 550</u>	<u>\$ (93,955)</u>	<u>\$ (122,643)</u>
CASH AT BEGINNING OF YEAR - RESTATED	<u>-</u>	<u>702,140</u>	<u>611,746</u>	<u>29,644</u>	<u>1,343,530</u>	<u>1,466,173</u>
CASH AT END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ 715,547</u></u>	<u><u>\$ 503,834</u></u>	<u><u>\$ 30,194</u></u>	<u><u>\$ 1,249,575</u></u>	<u><u>\$ 1,343,530</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	\$ 58,011	\$ (21,890)	\$ (115,975)	\$ -	\$ (79,854)	\$ (64,232)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	67,239	115,272	14,658	-	197,169	190,049
Change in assets and liabilities:						
(Increase) decrease in accounts receivable	(8,479)	(11,260)	(4,998)	-	(24,737)	29,329
(Increase) decrease in inventory	758	(221)	300	-	837	2,932
(Increase) decrease in prepaid insurance	(359)	(716)	(717)	-	(1,792)	(40,968)
Increase (decrease) in accounts payable	(4,361)	(508)	21,456	-	16,587	46,454
Increase (decrease) in meter deposits	-	-	-	164	164	8,147
Net cash provided (used) by operating activities	<u>\$ 112,809</u>	<u>\$ 80,677</u>	<u>\$ (85,276)</u>	<u>\$ 164</u>	<u>\$ 108,374</u>	<u>\$ 171,711</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING TRANSACTIONS:						
Capital assets purchased by short-term debt (accounts payable)	<u>\$ 6,473</u>	<u>\$ 84,793</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,266</u>	<u>\$ -</u>

CITY OF REMSEN

MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE A - ACCOUNTING POLICIES:

Municipal Utilities is a discretely presented component unit of the City of Remsen, Iowa, with a function of providing utility services to the residents of the City of Remsen. Although the Utilities are legally separate from the City, they remain financially accountable to the City. The operation of the Utilities is directed by a Board of Trustees, which is appointed by the City Council of Remsen, Iowa.

Government-wide Financial Statements - The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Municipal Utilities of the City of Remsen. Individual funds are not displayed but the statements show the business-type activities, generally financed in whole or in part with fee charged to external customers.

The statement of net assets report three categories of net assets:

Invested in capital assets, net of related debt - consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets - results when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - consists of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines, and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grant and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

CITY OF REMSEN
MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE A - ACCOUNTING POLICIES (CONTINUED):

Fund Financial Statements - Major individual proprietary funds are reported as separate columns in the fund financial statements. All remaining proprietary funds are aggregated and reported as nonmajor funds.

Measurement Focus and Basis of Accounting - The financial statements of the Municipal Utilities are prepared in accordance with generally accepted accounting principles (GAAP). The entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. It does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods and services and include administrative expenses and depreciation of capital assets. Other revenues and expense are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Major Funds - The Municipal Utilities reports the following major proprietary funds:

Water Utility - accounts for the operation and maintenance of the water system.

Electric Utility - accounts for the operation and maintenance of the electric system.

Gas Utility - accounts for the operation and maintenance of the natural gas system.

CITY OF REMSEN
MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE A - ACCOUNTING POLICIES (CONTINUED):

Budgets and Budgetary Accounting - In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units, internal service, non-expendable trust, and agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program.

Cash and Cash Equivalents - For purposes of the financial statement of cash flows, the City considers all certificates of deposit with maturities of one year or less to be cash equivalents.

Recognition of Revenues - In accordance with industry practice, Municipal Utilities records revenues as service is actually billed to the customer.

Capital Assets, Depreciation and Maintenance - The Municipal Utilities' property, plant, and equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements and the fund financial statements. The provisions for depreciation are based on straight-line rates varying from 5 to 50 years for utility property and equipment. Maintenance is charged for repairs of property and any replacements and renewals of items which do not materially extend the life of the asset.

Accounts Receivable - Accounts receivable are reported at their expected realizable value.

Inventory - Inventory is presented at the lower of first-in, first-out (FIFO) cost or market.

Management's Use of Estimates - Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management's estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

CITY OF REMSEN
MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE B - CASH AND POOLED INVESTMENTS:

The Utilities's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. During the year ended June 30, 2004, the Municipal Utilities held no investments.

Cash and cash equivalents are composed accordingly as of June 30, 2004:

Checking accounts	\$ 231,575
Certificates of deposit	<u>1,018,000</u>
Total	<u>\$ 1,249,575</u>

NOTE C - ELECTRIC TRANSMISSION CAPACITY RESERVE (MBMECA):

The members of Missouri Basin Municipal Electric Cooperative have agreed to establish a restricted fund for future expansion of their transmission facility. Each member pays \$.0050 per 100 KWH used into the fund. The City of Remsen Municipal Utilities' share of the fund increased by \$4,303 during the current fiscal year to a June 30, 2004 balance of \$205,435.

NOTE D - RESTRICTED ASSETS:

At June 30, 2004, \$3,503 of net assets restricted for debt service include the excess of assets over certain liabilities restricted for the debt service on revenue bonds. The City also held \$25,467 of customer utility deposits at June 30, 2004. Restricted assets are reported in various funds for cash deposited in bank accounts legally restricted for specific uses such as the payment of debt service and refund of utility deposits. See Note A describing the priority for use of restricted and unrestricted assets.

CITY OF REMSEN

MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE E - CAPITAL ASSETS:

A summary of changes in the capital assets for the year ended June 30, 2004 is as follows:

	<u>Balance</u> <u>June 30, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2004</u>
Business type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 149,493	\$ -	\$ 149,493
Land	<u>88,718</u>	<u>-</u>	<u>-</u>	<u>88,718</u>
Total capital assets not being depreciated	<u>\$ 88,718</u>	<u>\$ 149,493</u>	<u>\$ -</u>	<u>\$ 238,211</u>
Capital assets being depreciated:				
Electric plant, highlines and improvements	2,787,373	-	-	2,787,373
Electric transmission facilities (MBMECA)	535,850	18,425	-	554,275
Water plant, equipments and improvements	2,395,411	6,473	-	2,401,884
Gas distribution system	415,336	590	-	415,926
Equipment	143,978	19,587	-	163,565
Automotive equipment	<u>112,362</u>	<u>-</u>	<u>-</u>	<u>112,362</u>
Total capital assets being depreciated	\$ 6,390,310	\$ 45,075	\$ -	\$ 6,435,385
Less accumulated depreciation:				
Electric plant, highlines and improvements	\$(2,037,107)	\$ (83,621)	\$ -	\$ (2,120,728)
Electric transmission facilities (MBMECA)	(391,574)	(19,331)	-	(410,905)
Water plant, equipments and improvements	(752,605)	(60,873)	-	(813,478)
Gas distribution system	(258,805)	(7,006)	-	(265,811)
Equipment	(74,089)	(20,992)	-	(95,081)
Automotive equipment	<u>(90,937)</u>	<u>(5,346)</u>	<u>-</u>	<u>(96,283)</u>
Total accumulated depreciation	<u>\$(3,605,117)</u>	<u>\$ (197,169)</u>	<u>\$ -</u>	<u>\$ (3,802,286)</u>
Total net capital assets being depreciated	<u>\$ 2,785,193</u>	<u>\$ (152,094)</u>	<u>\$ -</u>	<u>\$ 2,633,099</u>
Business type activities capital assets, net	<u>\$ 2,873,911</u>	<u>\$ (2,601)</u>	<u>\$ -</u>	<u>\$ 2,871,310</u>

Depreciation expense of \$197,169 was charged to the business type activities function on the statement of activities.

CITY OF REMSEN

MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE F - BONDED INDEBTEDNESS:

Water Revenue Bonds - On March 1, 1999, the City issued \$245,000 in new water revenue bonds to refinance pre-existing water revenue bonds. The bonds have interest rates ranging between 4.45 percent and 5.0 percent, and mature annually in amounts of \$20,000 and \$25,000, respectively, until the year 2010. The bonds pay interest semi-annually on October 1 and April 1, with principal being due on April 1.

Water Revenue Capital Loan Notes - On December 15, 2001, the City issued \$235,000 in new water revenue capital loan notes to provide funds to pay for construction improvements and extensions to the municipal water utility. The bonds have interest rates ranging between 3.25 percent and 4.25 percent, and mature annually in amounts of \$10,000, \$20,000, \$25,000 and \$80,000, respectively, until the year 2011. The notes pay interest semi-annually on June 1 and December 1, with principal being due on June 1.

During the year ended June 30, 2004 the following changes occurred in Long-Term Debt:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Due Within</u> <u>One Year</u>
Water Revenue Bonds	\$ 165,000	\$ -	\$ 20,000	\$ 145,000	\$ 20,000
Water Capital Loan Notes	<u>215,000</u>	<u>-</u>	<u>10,000</u>	<u>205,000</u>	<u>10,000</u>
	<u>\$ 380,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 350,000</u>	<u>\$ 30,000</u>

A summary of the Municipal Utilities' bonded indebtedness by maturities is as follows:

	<u>Water Revenue Bonds</u>		<u>Water Capital Loan Notes</u>		<u>Total</u>	
<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 20,000	\$ 6,968	\$ 10,000	\$ 8,280	\$ 30,000	\$ 15,248
2006	25,000	5,038	20,000	7,935	45,000	12,973
2007	25,000	4,863	20,000	7,185	45,000	12,048
2008	25,000	3,675	25,000	6,425	50,000	10,100
2009	25,000	2,475	25,000	5,425	50,000	7,900
2010-2011	<u>25,000</u>	<u>1,250</u>	<u>105,000</u>	<u>7,813</u>	<u>130,000</u>	<u>9,063</u>
Total	<u>\$ 145,000</u>	<u>\$ 24,269</u>	<u>\$ 205,000</u>	<u>\$ 43,063</u>	<u>\$ 350,000</u>	<u>\$ 67,332</u>

CITY OF REMSEN

MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE G - PENSION AND RETIREMENT BENEFITS:

The Utilities contribute to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70 percent of their annual salary and the Utilities are required to contribute 5.75 percent of annual covered payroll. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$8,934, \$8,784 and \$8,045, respectively, equal to the required contribution for each year.

NOTE H - COMPENSATED ABSENCES:

Utilities' employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utilities until used or paid. The Utilities' liability for earned vacation and sick leave termination payments payable to employees at June 30, 2004 is considered immaterial.

NOTE I - TRANSFERS:

Water Utility Fund:

During the year ended June 30, 2004, transfers totaling \$16,186 were made from the Water Utility Fund to the Water Reserve Fund. This is a routine transfer for the annual payments of interest on the revenue bond and notes in accordance with the debt resolutions.

Electric Utility Fund:

During the year ended June 30, 2004, transfers totaling \$57,473 were made to the primary government, the City of Remsen. \$25,000 was a routine transfer to the City in lieu of taxes. The remaining \$32,473 was not a routine transfer and was for improvements to the Thelen baseball park.

Gas Utility Fund:

Transfers totaling \$25,000 were made from the Gas Utility Fund to the primary government, the City of Remsen. It was a routine transfer to the City in lieu of taxes.

CITY OF REMSEN

MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE J - INTERFUND BALANCES:

Outstanding balances between the water utility fund and the electric utility fund reported as “due to/from other funds” include the negative cash of the water utility fund from the pooled cash account. These balances are eliminated on the government-wide statement of net assets.

NOTE K - SEGMENT INFORMATION:

The City issued revenue bonds to support the water utility fund construction improvements. The fund financial statements report major funds with revenue-supported debt for the Water Utility Fund. This fund accounts for water services provided to area residents. Summarized financial information for these funds as of and for the year ended June 30, 2004, is presented as follows:

	<u>Water Utility</u>
Condensed statement of net assets:	
Assets:	
Current assets	\$ 39,193
Capital assets	<u>1,690,221</u>
Total assets	<u>\$ 1,729,414</u>
Liabilities:	
Current liabilities	\$ 60,452
Noncurrent liabilities	<u>317,205</u>
Total liabilities	<u>\$ 377,657</u>
Net assets:	
Investment in capital assets, net of related debt	\$ 1,343,016
Unrestricted	<u>8,741</u>
Total net assets	<u>\$ 1,351,757</u>

CITY OF REMSEN

MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE K - SEGMENT INFORMATION (CONTINUED):

Condensed statement of revenues, expenses, and changes in net assets:	
Operating revenues	\$ 210,942
Depreciation expense	(67,239)
Other operating expenses	<u>(85,692)</u>
Operating income	\$ 58,011
Non-operating revenue (expenses)	79
Transfers	<u>(16,186)</u>
Changes in net assets	\$ 41,904
Beginning net assets	<u>1,309,853</u>
Ending net assets	<u>\$ 1,351,757</u>
Condensed statement of cash flows:	
Net cash provided (used) by:	
Operating activities	\$ 112,809
Non-capital financing activities	(78,921)
Capital and related financing activities	(35,333)
Investing activities	<u>1,445</u>
Net increase (decrease)	\$ -
Beginning cash	<u>-</u>
Ending cash	<u>\$ -</u>

NOTE L - RISK MANAGEMENT:

The Municipal Utilities are exposed to various risks of loss related to torts; thefts, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Municipal Utilities assume liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE M - RELATED PARTY TRANSACTIONS:

The Municipal Utilities had business transactions of \$57,965 for insurance coverage with Matgen Insurance, which is owned by Steve Matgen, Municipal Utilities trustee, during the year ended June 30, 2004.

CITY OF REMSEN

MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE N - PRIOR PERIOD ADJUSTMENTS:

During the year ended June 30, 2004, the following adjustments were made to correct errors discovered in prior period amounts:

- Accounts receivable were overstated by \$18,261 in the Gas Utility Fund. The adjustment to correct this error decreased 2003 revenue and decreased 2003 accounts receivable by \$18,261 in the Gas Utility Fund.
- Accounts receivable were understated by \$18,261 in the Electric Utility Fund. The adjustment to correct this error increased 2003 revenue and increased 2003 accounts receivable by \$18,261 in the Electric Utility Fund.
- Expenses were overstated by \$40,968 due to prepaid insurance premiums. The adjustment to correct this error decreased 2003 insurance expense and increased 2003 prepaid insurance by \$40,968. This adjustment relates to the Water Utility, Electric Utility and Gas Utility by \$8,194, \$16,387 and \$16,387, respectively.
- Meter Deposits Fund was incorrectly combined with other proprietary funds. The adjustment to correct this error decreased 2003 meter deposits liability and increase 2003 revenue by \$838 in the Meter Deposits Fund.
- Water Reserve Fund was incorrectly combined with other proprietary funds. The adjustment to correct this error increased 2003 transfers-out and decreased 2003 cash by \$3,503 in the Water Utility Fund and increased 2003 transfers-in and increase 2003 cash in the Water Reserve Fund.
- Land for industrial and recreational development was incorrectly recorded by the Electric Utility Fund. Investments were overstated by \$116,588. The adjustment to correct this error decreased 2003 investments and increased 2003 transfers out to City by \$116,588 in the Electric Utility Fund.

CITY OF REMSEN

MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE O - COMMITMENTS:

The Municipal Utilities has entered into the following contracts to be completed after June 30, 2004:

<u>Description</u>	<u>Total Contract</u>	<u>Progress Bills Through June 30, 2004</u>	<u>Remaining Contract</u>
Electric Department Building	\$ 233,000	\$ 130,000	\$ 103,000
Water Tower Painting	<u>19,360</u>	<u>-</u>	<u>19,360</u>
	<u>\$ 252,360</u>	<u>\$ 130,000</u>	<u>\$ 122,360</u>

NOTE P - ACCOUNTING CHANGE:

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences*, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for the reporting the Municipal Utilities financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF REMSEN

MUNICIPAL UTILITIES

COMPARISON OF RECEIPTS, DISBURSEMENTS AND

CHANGES IN BALANCES - ACTUAL TO BUDGET (CASH BASIS)

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2004

	Business- Type <u>Actual</u>	<u>Budgeted Amounts</u>		Final to Actual <u>Variance</u>
		<u>Original</u>	<u>Final</u>	
RECEIPTS:				
Use of money and property	\$ 29,954	\$ 51,350	\$ 51,350	\$ (21,396)
Charges for services	<u>1,587,287</u>	<u>1,708,700</u>	<u>1,708,700</u>	<u>(121,413)</u>
	<u>\$ 1,617,241</u>	<u>\$ 1,760,050</u>	<u>\$ 1,760,050</u>	<u>\$ (142,809)</u>
DISBURSEMENTS:				
Business type activities	<u>\$ 1,628,723</u>	<u>\$ 1,913,373</u>	<u>\$ 1,913,373</u>	<u>\$ 284,650</u>
DEFICIENCY OF RECEIPTS UNDER DISBURSEMENTS	\$ (11,482)	\$ (153,323)	\$ (153,323)	<u>\$ 141,841</u>
Other financing uses:				
Transfers out	<u>(82,473)</u>	<u>(50,000)</u>	<u>(50,000)</u>	
	<u>\$ (82,473)</u>	<u>\$ (50,000)</u>	<u>\$ (50,000)</u>	
DEFICIENCY OF RECEIPTS AND OTHER FINANCING SOURCES UNDER DISBURSEMENTS AND OTHER FINANCING USES	\$ (93,955)	\$ (203,323)	\$ (203,323)	
BALANCE BEGINNING OF YEAR	<u>1,343,530</u>	<u>821,895</u>	<u>821,895</u>	
BALANCE END OF YEAR	<u>\$ 1,249,575</u>	<u>\$ 618,572</u>	<u>\$ 618,572</u>	

CITY OF REMSEN

MUNICIPAL UTILITIES

BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2004

	<u>Proprietary Fund</u>		
	<u>Enterprise</u>		
	<u>Cash</u> <u>Basis</u>	<u>Accrual</u> <u>Adjustments</u>	<u>Accrual</u> <u>Basis</u>
Revenues	\$ 1,617,241	\$ 28,062	\$ 1,645,303
Expenses	1,628,723	80,324	1,709,047
Other financing sources (uses)	<u>(82,473)</u>	<u>-</u>	<u>(82,473)</u>
Net	\$ (93,955)	\$ (52,262)	\$ (146,217)
Beginning net assets	<u>1,343,530</u>	<u>2,839,862</u>	<u>4,183,392</u>
Ending net assets	<u>\$ 1,249,575</u>	<u>\$ 2,787,600</u>	<u>\$ 4,037,175</u>

CITY OF REMSEN

MUNICIPAL UTILITIES

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -

BUDGETARY REPORTING

JUNE 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

The Municipal Utilities budget is included in the primary government, City of Remsen's, annual budget. Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents functions disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The Municipal Utilities disbursements are budgeted under business type activities. During the year, the City amended its budget; however, the City did not change the original budgeted disbursements for the Municipal Utilities. Therefore, the original budgeted amounts are the same as the final budgeted amounts.

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted in the business type activities function.

OTHER SUPPLEMENTAL INFORMATION

CITY OF REMSENMUNICIPAL UTILITIESSTATEMENT OF FUND NET ASSETSNONMAJOR PROPRIETARY FUNDSJUNE 30, 2004ASSETS

	<u>Water Reserve</u>	<u>Meter Deposits</u>	<u>Total</u>
CURRENT ASSETS:			
Cash	\$ -	\$ 1,224	\$ 1,224
RESTRICTED ASSETS:			
Cash	\$ 3,503	\$ 25,467	\$ 28,970
Total assets	<u>\$ 3,503</u>	<u>\$ 26,691</u>	<u>\$ 30,194</u>

LIABILITIES

CURRENT LIABILITIES:			
Meter deposits	\$ -	\$ 25,467	\$ 25,467
Total liabilities	<u>\$ -</u>	<u>\$ 25,467</u>	<u>\$ 25,467</u>

NET ASSETS

Restricted for debt service	\$ 3,503	\$ -	\$ 3,503
Unrestricted	<u>-</u>	<u>1,224</u>	<u>1,224</u>
Total net assets	<u>\$ 3,503</u>	<u>\$ 1,224</u>	<u>\$ 4,727</u>

CITY OF REMSENMUNICIPAL UTILITIESSTATEMENT OF REVENUES, EXPENSES, ANDCHANGES IN FUND NET ASSETSNONMAJOR PROPRIETARY FUNDSFISCAL YEAR ENDED JUNE 30, 2004

	<u>Water Reserve</u>	<u>Meter Deposits</u>	<u>Total</u>
NON-OPERATING REVENUE (EXPENSES):			
Investment income	\$ 65	\$ 386	\$ 451
Interest on bonds	<u>(16,251)</u>	<u>-</u>	<u>(16,251)</u>
Total non-operating revenue (expenses)	<u>\$ (16,186)</u>	<u>\$ 386</u>	<u>\$ (15,800)</u>
TRANSFERS:			
Transfers from other funds	<u>\$ 16,186</u>	<u>\$ -</u>	<u>\$ 16,186</u>
Total transfers	<u>\$ 16,186</u>	<u>\$ -</u>	<u>\$ 16,186</u>
CHANGE IN NET ASSETS	\$ -	\$ 386	\$ 386
NET ASSETS BEGINNING OF YEAR - RESTATED	<u>3,503</u>	<u>838</u>	<u>4,341</u>
NET ASSETS END OF YEAR	<u><u>\$ 3,503</u></u>	<u><u>\$ 1,224</u></u>	<u><u>\$ 4,727</u></u>

CITY OF REMSEN

MUNICIPAL UTILITIES

STATEMENT OF CASH FLOWS

NONMAJOR PROPRIETARY FUNDS

FISCAL YEAR ENDED JUNE 30, 2004

	Water Reserve	Meter Deposits	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ -	\$ 164	\$ 164
Net cash provided (used) by operating activities	\$ -	\$ 164	\$ 164
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Transfers from other funds	\$ 16,186	\$ -	\$ 16,186
Net cash provided by (used for) financing activities	\$ 16,186	\$ -	\$ 16,186
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Interest payments under bond obligations	\$ (16,251)	\$ -	\$ (16,251)
Net cash provided (used) by capital and related financing activities	\$ (16,251)	\$ -	\$ (16,251)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income	\$ 65	\$ 386	\$ 451
Net cash provided by (used for) financing activities	\$ 65	\$ 386	\$ 451
NET INCREASE (DECREASE) IN CASH	\$ -	\$ 550	\$ 550
CASH AT BEGINNING OF YEAR - RESTATED	3,503	26,141	29,644
CASH AT END OF YEAR	<u>\$ 3,503</u>	<u>\$ 26,691</u>	<u>\$ 30,194</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ -	\$ -	\$ -
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Increase (decrease) in meter deposits	-	164	164
Net cash provided (used) by operating activities	<u>\$ -</u>	<u>\$ 164</u>	<u>\$ 164</u>

CITY OF REMSENMUNICIPAL UTILITIESBOND AND NOTE MATURITIESJUNE 30, 2003

Year Ending June 30,	Revenue Notes				
	Water Revenue Bonds March 1, 1999		Water Capital Loan Notes December 15, 2001		Total
	<u>Interest Rate</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	
2005	4.65%	\$ 20,000	3.45%	\$ 10,000	\$ 30,000
2006	4.70%	25,000	3.75%	20,000	45,000
2007	4.75%	25,000	3.80%	20,000	45,000
2008	4.80%	25,000	4.00%	25,000	50,000
2009	4.90%	25,000	4.05%	25,000	50,000
2010-2011	5.00%	<u>25,000</u>	4.05-4.25%	<u>105,000</u>	<u>130,000</u>
		<u>\$ 145,000</u>		<u>\$ 205,000</u>	<u>\$ 350,000</u>

CITY OF REMSENMUNICIPAL UTILITIESSCHEDULE OF ELECTRIC RATESJUNE 30,

2004

2003

RESIDENTIAL SERVICE

First 50 KWH - \$0.070 per KWH
Next 150 KWH - \$0.055 per KWH
Over 200 KWH - \$0.045 per KWH
Minimum charge - \$3.50 per month

First 50 KWH - \$0.070 per KWH
Next 150 KWH - \$0.055 per KWH
Over 200 KWH - \$0.045 per KWH
Minimum charge - \$3.50 per month

COMMERCIAL SERVICE AND POWER

First 100 KWH - \$0.070 per KWH
Next 400 KWH - \$0.055 per KWH
Next 500 KWH - \$0.050 per KWH
Over 1,000 KWH - \$0.045 per KWH
Minimum charge - \$7.00 per month
Demand charge - \$3.00 per KWH
plus \$0.040
per KWH used

First 100 KWH - \$0.070 per KWH
Next 400 KWH - \$0.055 per KWH
Next 500 KWH - \$0.050 per KWH
Over 1,000 KWH - \$0.045 per KWH
Minimum charge - \$7.00 per month
Demand charge - \$3.00 per KWH
plus \$0.040
per KWH used

ELECTRIC CUSTOMERS

Residential Customers - 693
Commercial Customers - 215

CITY OF REMSEN

MUNICIPAL UTILITIES

SCHEDULE OF WATER RATES

JUNE 30,

2004

2003

RESIDENTIAL WATER RATES (MONTHLY)

First 1,000 gallons - \$7.25
Next 14,000 gallons - \$3.00 per M gallons
Over 15,000 gallons - \$2.75 per M gallons
Minimum charge - \$7.25 per month

First 1,000 gallons - \$6.50
Next 14,000 gallons - \$2.25 per M gallons
Over 15,000 gallons - \$2.00 per M gallons
Minimum charge - \$6.50 per month

COMMERCIAL WATER RATES (MONTHLY)

First 1,000 gallons - \$8.25
Next 5,000 gallons - \$3.00 per M gallons
Over 6,000 gallons - \$2.75 per M gallons
Minimum charge - \$8.25

First 1,000 gallons - \$7.50
Next 5,000 gallons - \$2.25 per M gallons
Over 6,000 gallons - \$2.00 per M gallons
Minimum charge - \$7.50

WATER CUSTOMERS

Residential Customers - 652
Commercial Customers - 125

CITY OF REMSEN

MUNICIPAL UTILITIES

SCHEDULE OF GAS RATES

JUNE 30,

2004

2003

RESIDENTIAL AND COMMERCIAL

All CF \$7.50 per MCF
Minimum charge - \$7.50 per month

All CF \$6.50 per MCF
Minimum charge - \$6.50 per month

GAS CUSTOMERS

Residential Customers - 635
Commercial Customers - 113



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Board of Trustees
City of Remsen
Municipal Utilities
Remsen, Iowa

We have audited the financial statements of the Municipal Utilities of the City of Remsen, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipal Utilities' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described on page 24, we believe item I-A-03 is a material weakness. Item I-A-03 is unresolved from prior years.



KING, REINSCH, PROSSER & CO., L.L.P.
Certified Public Accountants

To the Honorable Mayor
and Board of Trustees
City of Remsen
Municipal Utilities

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Municipal Utilities' operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Municipal Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for II-I-03.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Municipal Utilities of the City of Remsen, Iowa, and other parties to whom the Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Municipal Utilities of the City of Remsen, Iowa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

King, Reinsch, Prosser & Co., L.L.P.

September 22, 2004
Sioux City, Iowa

CITY OF REMSEN
MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the Financial Statements

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Incompatible duties, for accounting control purposes, are those duties that place a person in a position where they could both perpetrate and conceal errors or irregularities. To accomplish proper segregation of duties, the system, insofar as possible, should provide for different individuals to perform the functions of (a) authorizing transactions, (b) recording transactions, (c) maintaining custody of the assets that result from transactions, and (d) comparing assets with the related amounts recorded in the accounting records. In performing our audit, we noted that recordkeeping for the Municipal Utilities is the primary responsibility of one person, with review by the Trustees.

Recommendation - The size of the City's accounting and administrative staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties. This situation dictates that the Trustees remain actively involved in the financial affairs of the Municipal Utilities to provide oversight and review functions.

Response - The Board understands the nature of the weakness and the necessity for the Trustees to provide oversight and review functions. The Trustees will review the Utilities' procedures and implement changes as deemed necessary.

Conclusion - Response accepted.

I-B-04 Reconciliation of Utility Billings, Collections and Delinquencies - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation - Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response - We have worked with CMS software technical support to assist in preparation of reports with little success. We will consider exploring other software or contracting for some support with CMS software in preparing reconciliations.

Conclusion - Response accepted.

CITY OF REMSEN
MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the Financial Statements (Continued)

I-C-04 Meter Deposits - During our audit, it was noted that the activity of the meter deposits bank account was not recorded in the general ledger. Also, the cash account was excluded from the Treasurer's report.

Recommendation - The activity of the meter deposits needs to be recorded in a separate fund and accounted for in the Treasurer's report.

Response- We will record as recommended in the future.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting

II-A-04 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget - Disbursements for the year ended June 30, 2004 did not exceed the amount budgeted in the business type activities functional area.

II-C-04 Questionable Disbursements - We noted no disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - No disbursements of Municipal Utilities money for travel expenses of spouses of Board of Trustees or employees were noted.

II-E-04 Business Transactions - The Municipal Utilities had business transactions of \$57,965 for insurance coverage with Matgen Insurance, which is owned by Steve Matgen, Municipal Utilities trustee, during the year ended June 30, 2004.

Recommendation - The transaction exceeded \$1,500 and may represent a conflict of interest. We recommend the Council consult legal counsel on the disposition of this matter.

Response - We will consult legal counsel.

Conclusion - Response accepted.

CITY OF REMSEN
MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004
(CONTINUED)

Part II: Other Findings Related to Required Statutory Reporting (Continued)

- II-F-04 Bond Coverage - Surety bond coverage of Board of Trustees and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-G-04 Board of Trustees Minutes - No transactions were found that we believe should have been approved in the Board of Trustees minutes but were not.
- Although minutes of the Board of Trustees proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.
- Recommendation - The City should comply with Chapter 21 of the Code of Iowa and should publish minutes as required.
- Response - We will publish minutes as required.
- Conclusion - Response accepted.
- II-H-04 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- II-I-04 Water Revenue Bonds - We noted no instances of noncompliance with the terms of the City's Water Revenue Bonds. All scheduled payments of bond principal and interest were properly made.
- II-J-04 Water Revenue Capital Loan Notes - We noted no instances of noncompliance with the terms of the City's Water Revenue Capital Loan Notes. All scheduled payments of bond principal and interest were properly made.
- II-K-04 Electric Revenue Bonds - The City's Electric Revenue Bonds were retired in the fiscal year ended June 30, 1997.

CITY OF REMSEN
MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004
(CONTINUED)

Part II: Other Findings Related to Required Statutory Reporting (Continued)

Recommendation - The City should consider closing the Electric Revenue Bond Sinking and Electric Reserve and Improvement Funds if they no longer serve a fiscal purpose for the City's Enterprise (Utility) Fund. If these funds are to be designated for a specific purpose, the Board should have a schedule of unreserved, designated fund balance.

Response - We will consider closing these funds and preparing a schedule of unreserved, designated fund balance in fiscal year 2004-2005.

Conclusion - Response accepted.

II-L-04 Sales Tax - Sales tax on certain residential customers was not uniformly assessed.

Recommendation - The City should uniformly assess sales tax provided to residential customers in accordance with section 701-26.72 of the Iowa Department of Revenue Administrative Rules and Regulations

Response - This has been corrected.

Conclusion - Response accepted.

II-M-04 Capital Outlay Expenditures - During the audit, we noted capital expenditures relating to the baseball parks of the City of Remsen were coded to capital outlay of the Municipal Utilities. We also noted repairs and maintenance items were coded to capital outlay.

Recommendation - In the future, if the municipal utilities sponsors capital improvements for the City of Remsen, the Municipal Utilities should record a transfer to the City. Also, the Utilities should record repairs and maintenance to correct general ledger accounts.

Response - We will record as recommended in the future.

Conclusion - Response accepted.